

August 22, 2006

WORKING CAPITAL FUND

FY 2006 Third Quarter Report: Summary

I. Relation of Earnings to Expenses

Based on our reviews, the Fund is on track for a break-even year in FY 2006. Earned revenue for the Fund has totaled slightly under \$75.1 million through the Third Quarter, on track for an annual level of approximately \$101 million, as forecast in Table III of the June bill. Business Expense for the same period was \$74.9 million resulting in net income of \$0.2 million.

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

WORKING CAPITAL FUND			
FY 2006 Third Quarter Cumulative Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	Third Quarter Earnings	Third Quarter Business Expenses	Third Quarter Net
Supplies	\$2.2	\$2.2	\$0.0
Mail	\$1.6	\$1.8	-\$0.2
Copying	\$1.9	\$1.6	\$0.3
Printing/Graphics	\$1.9	\$2.8	-\$0.9
Building Occupancy	\$48.2	\$49.1	-\$0.9
Telephones	\$6.6	\$6.3	\$0.3
Desktop	\$0.6	\$0.7	\$0.0
Network	\$4.4	\$3.8	\$0.6
Procurement Services	\$0.7	\$0.7	\$0.0
Payroll Processing	\$1.7	\$1.3	\$0.4
CHRIS	\$1.6	\$1.0	\$0.6
Corp Training Services	\$0.1	\$0.2	-\$0.1
PMCDP	\$0.8	\$1.2	-\$0.5
STARS	\$2.6	\$2.1	\$0.6
TOTAL ¹	\$75.1	\$74.8	\$0.2

¹ When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

August 22, 2006

With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, historical building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. PMCDP implementation is proceeding in a manner to draw down balances accumulated in the first year. Specific differences in excess of \$50,000 are as follows:

- The Mail Business Line reported net earnings of -\$183,710 due to a 25% reduction of mail stops by customers and revenue impacts of this reduction. This situation occurred last year and the fund manager is allowing the business to use prior year reserves until the need arises to increase revenue. The business line has determined that this is the proper time to review the pricing policy because its reserves will be eliminated by the end of the fiscal year.
- The Copy Business Line reported net earnings of \$285,663 through the Third Quarter due to the large number of color copies produced and reduced maintenance costs related to new central copiers. Color copies have high fixed costs and when the numbers increase, the positive net income exhibit disproportional increases.
- The Printing and Graphics Business Line reported net earnings of -\$864,176 through the Third Quarter. These losses are generally due to credits to prior year billing that reduced earnings, uncharged customer usage (to be billed in April) that also reduced earnings, and costs from FY 2005 that were not adequately accrued last year. These amounts are offset by FY 2005 extraordinary gains.
- The Building Occupancy Business Line had net earnings of -\$870,437 through the Third Quarter. This is due to costs related to long term projects, like the bathroom upgrade, where revenues were collected in past years, but costs are reported in current year. These losses are offset by profits earned in the past for a cumulative break-even.
- The Telephone Business Line had net earnings of \$287,166 through the Third Quarter due primarily to collection of revenues for depreciation without any actual depreciation cost and one-time cost savings. This adds to funds that could be available to support the infrastructure upgrades once a plan is presented to the Board.
- The Network Business Line had net earnings of \$592,335 through the Third Quarter, basically on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes and one-time cost savings. In addition, business line managers have consolidated some activities that are resulting in structural savings.
- Payroll had net earnings of \$443,776 as a result of reducing contractor support. Because the business has not received the DFAS bill for services this year, we recommend keeping the equity in the business in case it is needed for DFAS.

August 22, 2006

- CHRIS had net earnings of \$608,724 due to a deferred capital equipment purchase, which is planned for the third quarter of FY 2006 and will be expensed as depreciation.
- Corporate Training Services experienced net earnings of -\$64,307, due to prior year costs for activities billed in FY 2005. Cumulative results of operations are at break even.
- PMCDP experienced net earnings of -\$495,094, primarily due to the drawdown in balances obligated in the initial FY 2004 year; however, no change in pricing policy is needed.
- STARS experienced net earnings of \$563,467 in the Third Quarter primarily due to delayed spending related to the continuing resolution at the beginning of FY 2006. Financing is currently being deployed at a rate that should cause the business to break-even for FY 2006.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings downward by \$2.3 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted to offset the reverse billing for August/September usage billed in October/November. Expenses reported in STARS were reduced by \$3.8 million, \$4.3 million for automated accruals that duplicated the business line accruals offset by \$0.5 million increased costs related to CHRIS activities at NETL that were not posted in the accounting for this fiscal year.

August 22, 2006

II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By July 2006 we had collected \$102.6 million (including prior year funding) compared with the estimated \$101 million in FY 2006 annual revenues. There are still customers who owe marginal funds to the WCF that represent their remaining usage for FY 2006. The Fund Manager is working with these customers to fully fund their WCF requirements as soon as possible.

WORKING CAPITAL FUND			
FY 2006 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II			
<u>Program Customer</u>	Annual Estimate	Customer Advances²	Difference
Secretary of Energy Advisory Board	\$ 188	\$ 232	\$ 43
Board of Contract Appeals	101	108	7
Bonneville Power Administration	193	N/A	N/A
Congressional & Intergovtl Affairs	4,051	4,554	503
Office of the Chief Financial Officer	705	702	-3
Counterintelligence	1,192	1,346	155
DOE Representative to the DNFSB	135	215	80
Economic Impact and Diversity	687	686	-1
Energy Efficiency	6,449	6,554	105
Environment, Safety, and Health	4,062	6,592	2,530
Energy Information Administration	6,996	7,299	303
Environmental Management	7,447	7,403	-44
Fossil Energy	3,722	3,978	257
General Counsel	2,866	3,000	134
Hearings and Appeals	735	630	-105
Office of Human Resources	2,035	1,961	-74

2 Customer advances include prior year customer advances. (see Table III).

August 22, 2006

WORKING CAPITAL FUND			
FY 2006 Third Quarter Cumulative Business Results (in Thousands)			
TABLE II (continued)			
<u>Program Customer</u>	Annual Estimate	Customer Advances	Difference
Inspector General	1,574	1,627	53
Chief Information Officer	5,098	5,631	532
Intelligence	3,055	3,315	260
Legacy Management	678	707	29
Office of Management and Admin.	8,613	7,261	-1,352
NNSA	19,606	19,597	-9
Nuclear Energy	2,568	2,052	-516
Naval Reactors	316	457	141
Electric Trans & Distribution (OE)	1,004	1,019	15
Public Affairs	657	973	316
Policy and International Affairs	1,743	1,500	-243
CRWM	1,675	1,732	57
Office of the Secretary	988	824	-164
Science	5,263	5,268	6
Security	5,342	5,377	35
WAPA/SWPA/SEPA	1,047	N/A	N/A
Field Offices	0	N/A	N/A
Total, Working Capital Fund	\$100,793	\$ 102,602	\$1,810

August 22, 2006

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines. Unlike the second half of FY 2005, automated controls have been reestablished in STARS.
- As shown in Table III, funds available exceeded obligations by an estimated \$38.2 million by the end of the Third Quarter. This was due largely to delays in acquiring customer funding and cautious behavior of the various businesses during the continuing resolution.

WORKING CAPITAL FUND					
FY 2006 Third Quarter Cumulative Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance ³ 10/05	Current Year Customer Advances	Total available for Obligation	Third Quarter Obligations	Advances Remaining to be Obligated
Supplies	\$ 2.5	\$ 2.0	\$ 4.5	\$ 1.9	\$ 2.6
Mail	1.4	1.7	3.1	1.5	1.6
Copying	0.8	2.1	2.9	1.7	1.2
Printing/Graphics	1.3	2.2	3.5	2.5	1.0
Building Occupancy	6.1	57.7	63.8	50.1	13.7
Telephones	3.5	7.1	10.6	5.7	4.9
Desktop	0.0	0.8	0.8	0.7	0.1
Network	3.0	5.5	8.5	4.0	4.5
Procurement Services	1.4	0.7	2.1	0.6	1.5
Payroll Processing	3.4	1.6	5.0	1.3	3.7
CHRIS	0.2	2.1	2.3	1.5	0.8
Corp Training Services	0.5	0.0	0.5	0.0	0.5
PMCDP	0.6	1.0	1.6	0.7	0.9
STARS	0.0	3.6	3.6	2.3	1.3
TOTAL	\$ 24.7	\$ 88.1	\$ 112.8	\$ 74.6	\$ 38.2

³ The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year.

August 22, 2006

IV. Changes in Budget Estimates by Business Line and Customer

The \$3.8 million increase from the May 2004 to the December 2004 estimate for FY 2006 was the result of adding a new business to finance the Standard Accounting and Reporting System (STARS) \$3.5 million and \$0.2 million in building rent. Otherwise the FY 2006 billing estimates are reasonably aligned with prior estimates.

FY 2006 Budget Estimates for WCF Businesses		
Date	Process	FY 2006 Billing Estimate (\$Millions)
May 2004	FY 2006 Corporate Review	\$97.1
December 2004	FY 2006 Congressional Budget	\$100.9
April 2005	FY 2007 Corporate Review	\$100.9
December 2005	FY 2007 Congressional Budget	\$101.0
June 2006	June 2006 WCF Bill	\$100.8

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the Third Quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies for most businesses except Mail. The mail business experienced a significant change in operations in FY 2005 as customers reduced the number of mail stops used for receipt of the mail. The costs to the business line did not decline, but the Fund manager decided to use this opportunity to reduce equity in the business before reviewing the pricing policy.

It is now time to review that policy and we think this should occur before the October billing period at the beginning of FY 2007 if possible. The business line is also recommending that we expand the business by adding two new segments, the bus and messenger service. Customers are already paying for the messenger service outside of the Fund. Customers reacted to an earlier plan to eliminate the bus by asking to have it added to the Fund. As a result of scanning the badges of bus riders, the business can now estimate with accuracy who is using the bus and project costs per program customer.

August 22, 2006

VI. Financial Management Systems Progress Working Capital Fund Billing System

The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS/STARS by the second working day of the month (a decrease of two working days). This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.

During the Second Quarter of FY 2006 the Fund Manager Manager's Office, with the help of Kathy Schanck, performed a process review with the Copy, Mail, and Printing businesses on their respective inventory reporting practices. The outcomes are documented procedures that include: the location of the inventory; the process for acquiring inventory; a description of the system used to manage inventory; the process for and the frequency of taking physical inventories; how to account for cost of goods sold and; how to account for obsolete, lost or wasted inventory. We will examine our inventory reporting during FY 2006 to determine its consistency.

